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Message Text

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ORIGIN AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 H-01 CIAE-00 DODE-00
PM-04 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01
SP-02 SS-15 USIA-06 CEA-01 COME-00 EB-07 FRB-03
EPG-02 STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 XMB-02
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R 171528Z JUN 77
FM SECSTATE WASHDC
TO AMEMBASSY BRUSSELS
INFO AMEMBASSY LUSAKA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY BONN
AMEMBASSY COPENHAGEN

C O N F I D E N T I A L STATE 140961

USEEC ALSO FOR EMBASSY

E.O. 11652: GDS

TAGS: EEC, EAID, XA, ZA

SUBJECT: ZAMBIAN PRESIDENT'S REQUEST TO EC COMMISSION
FOR DOLS 200 MILLION IN EMERGENCY AID
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REF: (A) BRUSSELS 5715; (B) BRUSSELS 6020

1. IN RESPONSE REF A CONCERNING PRESIDENT KAUNDA'S REQUEST
TO EC COMMISSION FOR DOLS 200 MILLION OF EMERGENCY
ASSISTANCE TO HELP ALLEVIATE SERIOUS BALANCE OF PAYMENTS
SITUATION, ZAMBIA HAS NOT MADE A SIMILAR URGENT, HIGH-LEVEL

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APPEAL TO THE US. DURING MOST RECENT (APRIL 6) MEETING ON AID WITH ZAMBIAN OFFICIALS, PRESIDENT KAUNDA'S ECONOMIC ADVISER INDICATED TO OUR AMBASSADOR IN LUSAKA THAT ZAMBIA HOPED THE US AID PROGRAM FOR ZAMBIA IN 1978 WOULD BE AT A SOMEWHAT HIGHER LEVEL THAN THE 1977 PROGRAM. EMBASSY BELIEVED ZAMBIANS WERE THINKING OF A PROGRAM OR SECTOR LOAN OF AT LEAST DOLS 30 MILLION FOR 1978.

2. EARLIER THIS YEAR A ZAMBIAN MINISTRY OF ECONOMIC AND TECHNICAL COOPERATION OFFICIAL TOLD OUR AMBASSADOR HE HAD BEEN INSTRUCTED BY KAUNDA TO ASK THE US, UK, FRG, AND JAPAN TO CONSIDER ADDITIONAL HELP FOR ZAMBIA THIS YEAR IN VIEW OF THE SITUATION IN SOUTHERN AFRICA. IN DISCUSSION AMBASSADOR REVIEWED FY 77 US DOLS 20 MILLION PROGRAM LOAN

AND PL-480 PROGRAM, AND ZAMBIANS EXPRESSED INTEREST IN MORE OF THE SAME.

3. ZAMBIA'S BALANCE OF PAYMENTS DIFFICULTIES DATE BACK TO 1975 WITH THE DRAMATIC FALL IN EXPORT EARNINGS DUE TO DEPRESSED COPPER PRICES AND TRANSPORT DISRUPTIONS FOLLOWING CLOSURE OF BENGUELA RAILROAD ACROSS ANGOLA. ZAMBIA'S OVERALL BALANCE OF PAYMENTS DEFICIT FOR 1975 TOTALED ABOUT DOLS 340 MILLION. IN 1976 ZAMBIA WAS ABLE TO REDUCE THE BOP DEFICIT TO AROUND DOLS 120 MILLION, THANKS IN PART TO INCREASED COPPER EARNINGS MADE POSSIBLE BY ELIMINATION OF SHORT-TERM TRANSPORTATION BOTTLENECKS THROUGH OPENING OF TANZAM RAILROAD, AN 11 PERCENT INCREASE IN COPPER PRODUCTION, A SLIGHTLY HIGHER AVERAGE PRICE FOR CONFIDENTIAL

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COPPER IN 1976, AND ALSO TO OVER DOLS 80 MILLION IN EMERGENCY AID FROM THE WEST. BUT THE IMPROVED BOP SITUATION WAS AT THE EXPENSE OF CUTTING NEEDED IMPORTS BY ABOUT 25 PERCENT IN 1976.

4. GOVERNMENT EXPENDITURES IN 1976 EXCEEDED GOVERNMENT REVENUE AND BORROWING BY A STAGGERING DOLS 400 MILLION. THE PROSPECTS FOR 1977 ARE NOT ENCOURAGING. WITH THE PERSISTENCE OF LOW COPPER PRICES AND HIGH PRODUCTION COSTS, ZAMBIA EXPECTS ONLY MINIMAL BUDGET REVENUE FROM MINING OPERATIONS IN 1977 AND PROJECTS A SUBSTANTIAL BUDGET DEFICIT DESPITE NEW TAX MEASURES AND RESTRICTIONS ON GOVERNMENT EXPENDITURES.

5. ZAMBIA'S SEVERE SHORTAGE OF FOREIGN EXCHANGE REMAINS IN 1977 AGAINST A BACKGROUND OF THE ECONOMIC DISLOCATIONS CAUSED BY THE BORDER CLOSINGS IN SOUTHERN AFRICA, LOW COPPER PRICES, AND SIGNIFICANT INCREASES IN COPPER PRODUCTION COSTS DUE TO HIGH COSTS FOR IMPORTED INPUTS.

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DESPITE ZAMBIA'S ADOPTION OF AN IMF-APPROVED STABILIZATION PROGRAM IN 1976 WHICH INCLUDED A 20 PERCENT DEVALUATION, EXCHANGE AND IMPORT RESTRICTIONS, AND A PHASED REDUCTION OF PAYMENT ARREARS, THESE ARREARS CONTINUE TO ACCUMULATE.

6. THE UNITED STATES HOUSE OF REPRESENTATIVES HAS APPROVED LEGISLATION AUTHORIZING A DOLS 100 MILLION SOUTHERN AFRICA SPECIAL REQUIREMENTS FUND. THE HOUSE APPROPRIATIONS COMMITTEE HAS RECOMMENDED FULL APPROPRIATION OF THE FUND. HOUSE FLOOR DEBATE ON APPROPRIATIONS BILL SCHEDULED FOR WEEK OF JUNE 20.

7. THE SENATE HAS APPROVED LEGISLATION AUTHORIZING DOLS 17.5 MILLION FOR ZAMBIA. THE SENATE ADOPTED AMENDMENT ALSO INCLUDED IN HOUSE VERSION OF BILL WHICH WOULD

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PROHIBIT ASSISTANCE TO ZAMBIA, TANZANIA, ANGOLA AND MOZAMBIQUE UNLESS THE PRESIDENT DETERMINES IN A REPORT TO CONGRESS THAT SUCH ASSISTANCE WOULD FURTHER THE FOREIGN POLICY INTERESTS OF THE US.

8. FUNDING AVAILABILITY FOR ZAMBIA WILL DEPEND ON EVENTUAL CONFERENCE AND APPROPRIATION ACTION AND PRESIDENTIAL DETERMINATION REQUIRED IN BOTH BILLS.

9. THE ADMINISTRATION HAS ENDORSED THE DOLS 100 MILLION SOUTHERN AFRICA SPECIAL REQUIREMENTS FUND AND INDICATED ITS INTENTION TO PROVIDE DOLS 30 MILLION COMMODITY IMPORT LOAN TO ZAMBIA IN FY 1978 IF APPROVED BY THE CONGRESS. CHRISTOPHER

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